

## 10 Problems encountered in cooperative arrangements

In this chapter, the problems or negative aspects of business cooperation are considered from the viewpoint of firms currently involved in business cooperation. What problems are firms experiencing within their cooperative arrangements and how serious are they?

As with the discussion of benefits, the negative aspects of business cooperation are examined in isolation to gauge the strength of feeling about specific factors. However, it needs to be borne in mind that a major problem and a strong benefit may well go together. This particularly needs to be taken into account when judging the overall impact of different firm characteristics and types of arrangements.

The chapter is divided into four sections. Problems are first discussed in Section 10.1 at the aggregate levels, followed by firm characteristics (Section 10.2) and types of arrangements (Section 10.3). Finally, Section 10.4 summarises the findings of the previous three sections.

### 10.1 Overview

In contrast to the analysis of benefits in Part B of the report, the focus of this discussion is the proportions of firms reporting any, or ‘some’, problems with their cooperative arrangements<sup>1</sup>. It is of considerable interest to know about *all* the negative aspects associated with business cooperation, as even so called minor problems can be a source of irritation and possibly include aspects which could be easily addressed by external assistance (governments, industry associations or other bodies).

At the same time, the significance of major problems should not be underestimated as these problems might actually threaten the sustainability of their arrangements. Accordingly while the analysis below relates mainly to the wider measure of problems encountered, reference is also often made to the significance of major problems in particular forms of business cooperation<sup>2</sup>.

In the survey, firms were given a list of seven possible negative aspects associated with inter-firm cooperation as well as an ‘other’ category<sup>3</sup>. The basis for comparison across different arrangements are differences in both the degree of the problems and their order of importance.

As with benefits (which has the Benefit Index or BI), an averaging measure is used throughout the chapter to assist with comparisons<sup>4</sup>. This is called the ‘Problem Index’ (PI) and measures the total number of firms

---

<sup>1</sup> In this chapter, firms with ‘some’ problems are those which indicated they had either a minor, moderate, major or severe problem with cooperation (see Q11 of Survey Form, Appendix A).

<sup>2</sup> For convenience, ‘major’ problems is used to encompass *either* major or severe problems with cooperative arrangements.

<sup>3</sup> The ‘other’ category is excluded from the analysis in this section as it typically only represents 2-3 per cent of firms. This in part may reflect the fact that a number of firms were not inclined to take the time to state other reasons. However, in the discussion of impediments in Chapter 12, it is observed that over 40 per cent of non-cooperating firms ticked the ‘other’ category. In this context, the very low proportion of cooperating firms with ‘other’ problems may in fact be fairly accurate.

which have experienced some problems across the seven problem categories (in a particular arrangement or type of firm), divided by seven to give an average problem ‘score’.

We can use the Problem Index as a shorthand measure for summarising the extent to which particular firms (or firms in particular arrangements) are encountering problems as a result of cooperation.

### 10.1.1 All industries

By way of introduction to the problems encountered by cooperating firms, almost 80 per cent of them have some problems with their cooperative arrangements. However, only 30 per cent encounter any *major* problems and a low 15 per cent face two or more *major* problems.

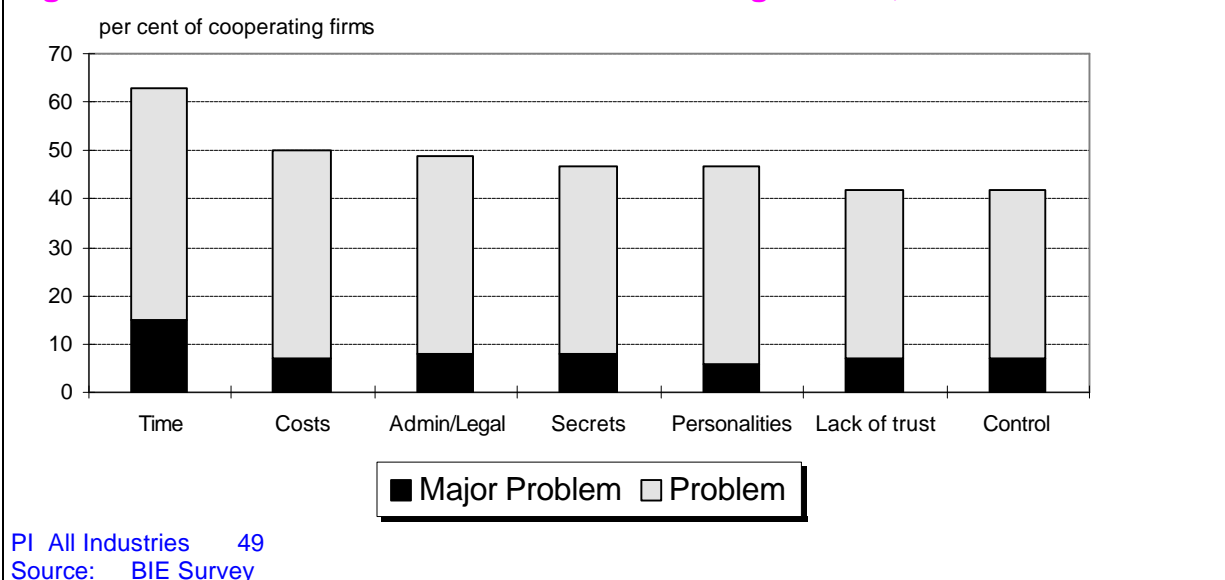
These proportions for major problems are much lower than the proportions of firms obtaining major benefits across all industries (see Chapter 6). Thus, 75 per cent of cooperating firms obtain some major benefits from business cooperation while two-thirds obtain two or more. This is very significant:

- the proportion of cooperating firms receiving at least one major benefit from business cooperation is two and a half times the amount experiencing at least one major problem; and
- the proportion of cooperating firms receiving two or more major benefits is over four times greater than the amount encountering two or more major problems.

These findings firmly place the ‘costs’ of cooperation in context. The fact that more firms benefit than encounter problems is not surprising, of course, but the relative differences are reassuring and are a big plus in favour of inter-firm cooperation.

Figure 10.1 shows the individual problems associated with business cooperation as rated by the firms with current cooperative arrangements. The percentages shown in this chart set the ‘norm’ as the basis for comparisons between different forms of cooperation. The Problem Index for all industries is 49.

**Figure 10.1 Problems encountered in arrangements, all industries**



<sup>4</sup> See Section 6.1.3 for a discussion of the Benefit Index.

The negative aspects of cooperation across all industries broadly fall into three main groups. The additional time commitments involved in managing cooperative arrangements is out on its own, with almost two-thirds of firms reporting difficulties in this area (it is also significant as a major problem of cooperation). The second group comprises four problem categories around the 50 per cent figure; thus approximately one half of cooperating firms experience problems with financial costs, administrative/legal matters, disclosing commercial secrets and personality difficulties. Finally, at a lower level, around 40 per cent of firms have cooperation problems relating to loss of control and lack of trust.

The major problems for cooperating firms are very clearly additional time commitments (15 per cent of firms) and the rest a distant second and all close together (6-8 per cent of firms). In the hectic world of modern commerce, the scarcity of the time resource obviously preys on minds of business managers. The time factor can be particularly important to small firms relatively new to the cooperation game and facing a steep learning curve (see Box 10.1). It says a lot about current firm behaviour and attitudes that this is ranked above all else. At the other end of the scale, firms are being relatively positive and mature in their attitude to trust and control – two aspects often seen as important barriers to business cooperation.

Of course all may not be as it first appears. Rather than looking at each problem as independent from the rest, it may often be the case that some are causes and some are consequences. The clearest example of this might be time as a consequence of other factors. Thus, the relatively high proportion of firms specifying time as a problem may be reflecting the fact that they need to devote so much time to dealing with some of the other matters (for example, trust, administration, control). The administrative and legal burden of business cooperation might also be intertwined with other factors, such as the handling of commercially sensitive matters and financial aspects.

#### **Box 10.1 Cooperation and time commitments**

*Breseight Australia Pty Ltd is a small engineering company with 20 employees. It is a family company which started in 1984. In the last couple of years it has won major contracts as a preferred component supplier to Telstra and Alcatel. As a consequence of these contracts, Breseight has found it necessary to develop cooperative arrangements with three of its own suppliers to help better manage its production processes.*

*The company has gained enormously through working closely with Telstra and Alcatel, particularly through improved distribution processes, increased productivity, better management techniques and quality enhancement. But it has also experienced some difficulties with its cooperative arrangements, on both the customer and supplier side.*

*The main problem has been the additional time required to manage the contracts. For a firm which until recently had dealt principally at arm's length with its customers and suppliers, Breseight has faced a very steep learning curve in dealing with very large partner firms. Management has had to make time to handle all the administrative and logistical aspects, as well as such matters as quality assurance. This is something which Breseight believes it had to face up to by learning on the job and could not be overcome by simply adding staff resources.*

Source: BIE interview

There is clearly something in this line of argument. The possible relationships between the various problems needs to be borne in mind in the following sections. At the same time, whether inter-related or not, the individual problems specified by the firms are real to them as separate, 'end-of-the-day' issues which have to be dealt with as a consequence of their cooperative arrangements.

### 10.1.2 States

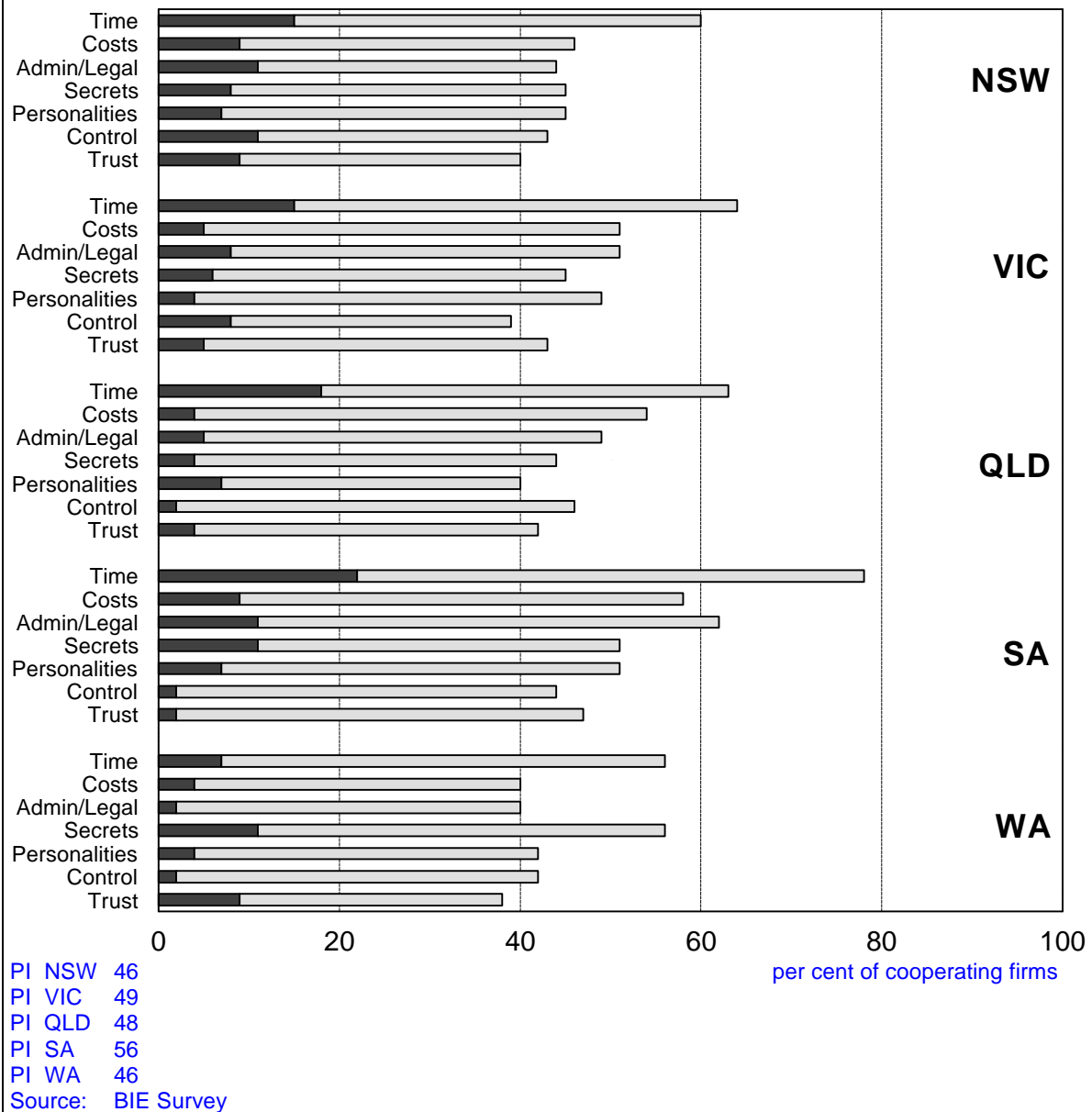
It was noted in Part B that state characteristics largely reflect the relative importance of the industries and different firm types within their borders. Accordingly, caution should be exercised in this part of the report in attributing state differences to intrinsic or inherent state characteristics.

In fact there appear to be few significant differences between the states with regard to business cooperation problems (Figure 10.2). South Australian firms are somewhat of an exception and easily have the most problems associated with their linkages (Problem Index of 56).

The most significant differences from other states are the very high proportions of SA firms complaining about additional time commitments (78 per cent) and having administrative and legal problems (62 per cent). The fact that around four-fifths of cooperating South Australian firms are experiencing problems with the degree of time involved in managing business cooperation is a little unsettling and could possibly threaten the long-term viability of these linkages. This is particularly so with 22 per cent of SA firms also regarding time as a *major* problem<sup>5</sup>.

---

<sup>5</sup> In view of the generally very low proportion of firms reporting major problems with their cooperative arrangements, caution must be exercised in evaluating their significance at the industry and other disaggregated levels. In this example, the South Australian firms with major time problems represent only about 10 firms.

**Figure 10.2 Problems encountered in arrangements, by state**

These results are of course likely to reflect something about industry structure or cooperating firm characteristics. In addition, it will be recalled from Chapter 6 that South Australian firms are also the most likely to *benefit* from business cooperation. Their greater tendency to experience problems must be seen in this context.

NSW firms provide an interesting story in their attitude to cooperation problems. On average they have relatively low proportions of firms experiencing general difficulties (only bettered in fact by WA firms), but score relatively highly with regard to 'major' problems. Victorian and Queensland firms come out fairly even for both general and 'major' problems and their PIs are around the national average.

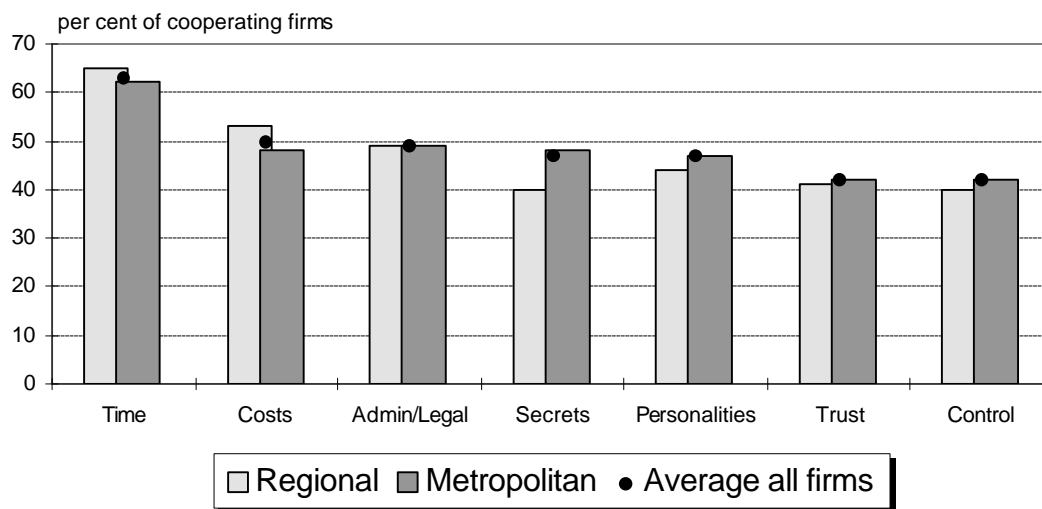
The smallest state, Western Australia, has the least problems with cooperation both at the general and 'major' problem levels. The PI of 46 reflects the fact that the proportion of WA firms with problems is on

the low side in all categories, with the notable exception of commercial secrets. In this category WA firms are in fact the most likely nationwide to have problems – around 55 per cent of firms experience some problems with disclosing secrets.

### 10.1.3 Metropolitan/regional location

An examination of Figure 10.3 shows there to be very few differences in problems for cooperating firms in the major cities and the regional areas. The negative aspects are much the same wherever a firm is located.

**Figure 10.3 Problems encountered in arrangements by metropolitan and regional firms**



PI Metropolitan 47  
 PI Regional 48  
 Source: BIE Survey

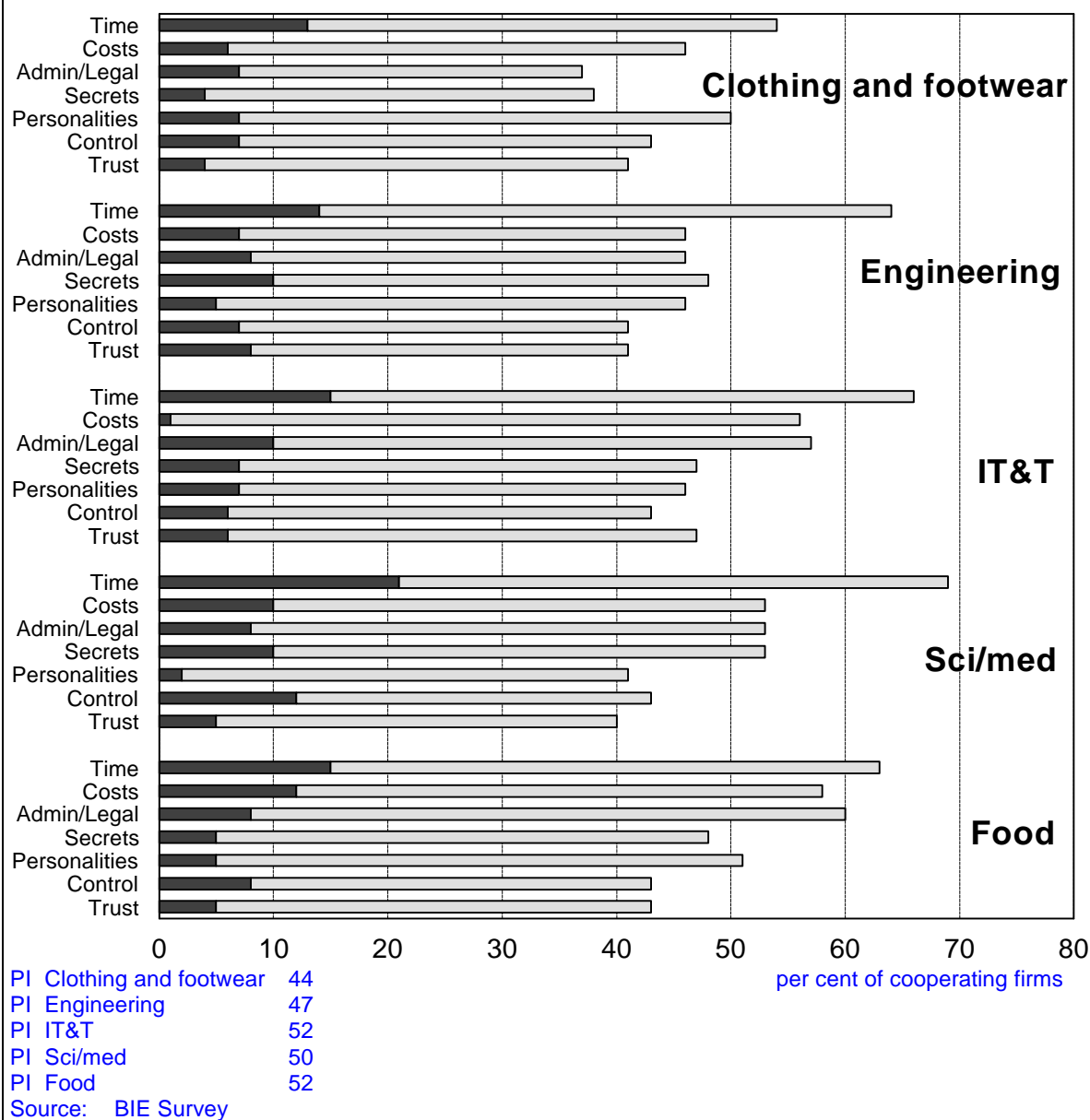
Only one problem is worthy of mention. Firms in the major cities tend to be a little more concerned with disclosing commercial secrets than regional firms. In fact, at 40 per cent, disclosing commercial secrets is likely to be the least problem regional firms have with inter-firm cooperation

## 10.2 Problems and firm characteristics

This section considers whether certain types of firms face particular problems with their linkages. As in Part B, firm characteristics are classified according to industry, size and age of the firm, high and low performers, exporters/non-exporters, product type, technology content and the degree of competition in the market place.

### 10.2.1 Industry

Does the industry in which a firm operates make any difference when it comes to the problems it faces in its cooperative business arrangements?

**Figure 10.4 Problems encountered in arrangements, by industry**

The five industries in fact appear to fall into two groups, with the Clothing and footwear and Engineering firms somewhat less likely to experience problems compared to firms in the other three industries. Across the five industries, problems are apparently most likely for Food and IT&T companies and least likely for Clothing and footwear firms (Figure 10.4).

The Food industry has above average problems with administrative/legal problems and financial costs. The proportion of Food firms having 'major' problems with the financial costs of cooperation is also relatively high (12 per cent).

Firms in the IT&T industry have a few problems with administrative/legal aspects and financial costs. However, the proportion of IT&T firms with 'major' problems in these two categories provides a notable contrast. Although a reasonably pervasive problem across the industry, only 1 per cent of IT&T firms regard financial costs as a 'major' problem in their cooperative arrangements. In contrast, 10 per cent of firms regard the administrative side of cooperation as a 'major' problem.

Clothing and footwear firms experience generally fewer problems than other industries, but particularly so in relation to the administrative/legal burden and disclosing commercial secrets. The latter may seem surprising in view of the industry-wide emphasis placed on design and product differentiation.

The industry experiencing the most 'major' problems in its cooperative arrangements is Scientific/medical. A high 21 per cent of firms complain about time as a major burden. The proportion of firms having 'major' problems with financial costs, disclosing commercial secrets and loss of control are also relatively high compared with other industries.

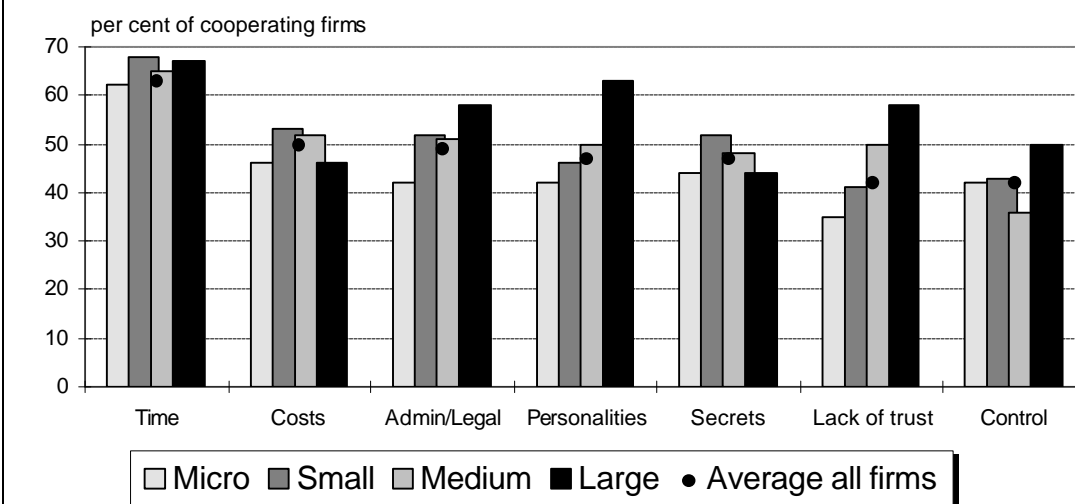
## 10.2.2 Size of firm

One of the most basic firm characteristics is its size. The differences in problems, if any, between larger and smaller firms, may be of interest to a wide audience.

Figure 10.5 shows the proportion of firms with problems for each employee size category adopted in this report. At the general level, the negative aspects of business cooperation become stronger as firm size increases. Thus the extent of problems encountered by large firms is measured at 55 by the Problem Index, compared with a Problem Index score of only 45 for micro firms. However, there is somewhat of a levelling out in the extent of the problems faced by the two mid-groups.

Larger firms are of course more likely to have multiple linkages than smaller firms and therefore potentially face more problems. However, only two problems can be *clearly* seen to get worse as firm size progresses: personality difficulties and lack of trust. For the former the chance of a personality clash increases steadily over the three smallest firm groups and then jumps to 63 per cent for the largest firms. This could be explained in part by the greater number of linkages which large firms have on average – the more people a firm has to deal with the greater the likelihood of personality difficulties. Alternatively, it might be due to the fact that large firms tend to be involved in more complex arrangements with higher stakes attached, thus placing more of a strain on personal relationships between firms.

**Figure 10.5 Problems encountered in arrangements, by firm size**



PI Micro	45
PI Small	51
PI Medium	50
PI Large	55



Source: BIE Survey

Lack of trust varies substantially between each firm-size category and in some ways is contrary to the results that might have been expected. That is, rather than small firms having the *least* problems with trust (as in Figure 10.5), the fact they are less likely to cooperate (see Chapter 4) ought to perhaps make them relatively *more* suspicious of their partners.

One explanation for the data might be that smaller firms are much more likely to be involved in informal arrangements than large firms (see Chapter 5). In informal arrangements, trust takes the place of the contract.

The administrative/legal burden of business cooperation also appears to be generally more of a problem as firm size increases (although this plateaus in the middle groups). This could be a function of both the number of arrangements and their likely complexity. Interestingly, however, the problems of time management do not vary a great deal with firm size which is somewhat contradictory to this hypothesis.

At the 'major' problem level, the relationship between firm size and problems is virtually reversed<sup>6</sup>. If the micro firms are excluded, the probability of 'major' problems becomes less as firms become bigger.

On average, small firms are significantly more likely to experience 'major' cooperation problems than large firms. Especially significant is the 21 per cent of small firms with 'major' time management problems. However, the proportion of small firms having 'major' problems with financial costs, lack of trust and personalities are also all well above average. Some small firms (although not the very smallest) are clearly struggling a little with several of the negative aspects of business cooperation. Box 10.2 provides an example of one firm's problems with its cooperative arrangements.

#### Box 10.2 The importance of size

*Agen Biomedical has experience working with distributor groups as well as with multinationals. The latter provides access to joint R&D at a level greater than could be done alone and also provides intangibles such as market credibility.*

*As a medium-sized company Agen Biomedical has experienced some difficulties with credibility when dealing with large companies and also differences in priorities and their inability to influence these large companies. For a successful cooperative arrangement the smaller firm has to make itself more important to the other firm(s).*

*With its multi-partner relationships, Agen Biomedical's problems have included the distant geographical location of some member firms and getting all firms to understand the benefits of cooperation. It is important to have relationships with these similar-sized firms which can both be influential and also allow Agen to maintain its independence. There are plenty of such possible linkage partners in Australia.*

*Previous experience has taught Agen Biomedical that it is important to have good personal contacts at a number of levels within the partner firms. This reduces problems caused by staff changes.*

Source: BIE interview

<sup>6</sup> The 'major' problems will be referred to in the text throughout the chapter but are not shown in Figure 10.5 or subsequent figures - they are generally very small, vary little and would add to the complexity of the charts.

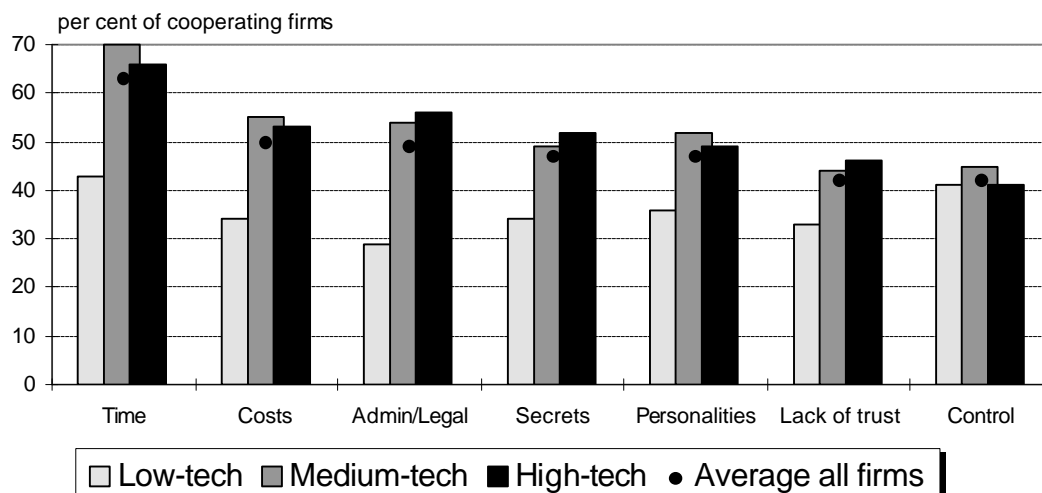
### 10.2.3 Technology content of product

Low-tech firms are considerably less likely to have problems within their cooperative arrangements than medium and high-tech firms (Figure 10.6).

Firms producing relatively unsophisticated products are not particularly enthusiastic about business cooperation (see Chapter 4). They tend not to face the same degree of complexity and uncertainty as higher tech firms. It may be that the low-tech firms that do take the plunge are not sufficiently committed to get over-concerned about the negative aspects.

In other words, cooperation apparently plays only a minor part in their business activities and the associated costs are of relatively small consequence to most firms<sup>7</sup>. Significantly, the only matter which makes an impact as a 'major' problem for low-tech firms is the fear of losing control. This suggests they are generally uncomfortable with the concept of cooperation.

**Figure 10.6 Problems encountered in arrangements, by technology content of firm's product**



PI Low-tech 36  
 PI Medium-tech 53  
 PI High-tech 52  
 Source: BIE Survey

Medium to high-tech firms, on the other hand, are more likely to cooperate as part of their usual business activities. For high-tech firms in particular, linkages with other firms are often part and parcel of their trade.

The negative aspects they experience probably reflect this greater involvement. The time these firms require to manage cooperation is particularly troublesome (and especially so for high-tech firms). Financial costs and administration problems also rate highly for both high and medium-tech firms.

<sup>7</sup> It will be recalled from Chapter 7 that they are also less likely to benefit from cooperation than higher tech firms.

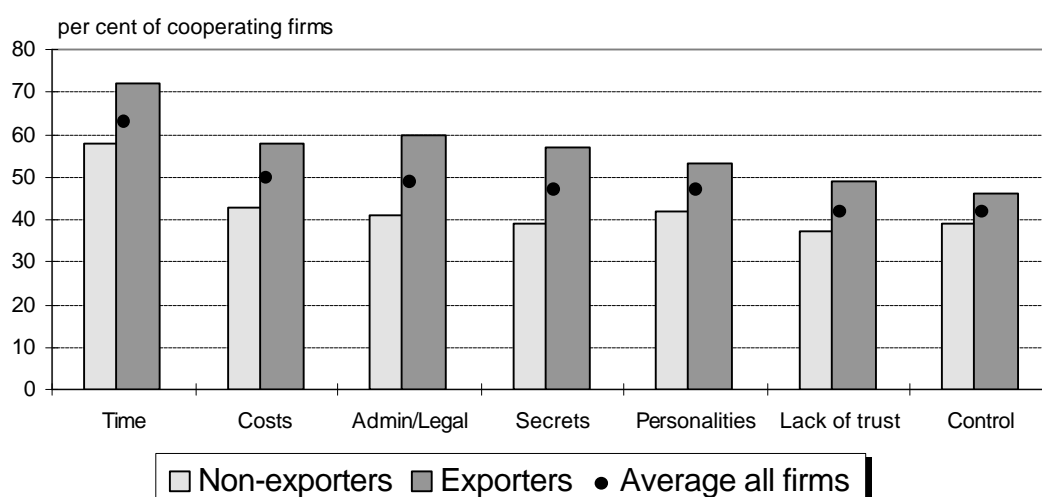
### 10.2.4 Exporters and non-exporters

The problems encountered by exporters (and non-exporters) are shown in Figure 10.7. Exporters are more likely to have cooperation problems across all the categories in comparison with domestic-focused firms (PIs of 56 and 43 respectively).

As usual with business cooperation, allocating time is by far the biggest problem for exporting firms (72 per cent). A second tier of negatives is headed by the administrative/legal burden of cooperation, which affects 60 per cent of exporters, closely followed by financial costs and disclosing commercial secrets.

Administration concerns and disclosing commercial secrets provide the biggest contrasts between exporters and non-exporters. On the other hand, exporters are no different from domestic-focused firms in relation to problems with loss of control.

**Figure 10.7 Problems encountered in arrangements by exporters and non-exporters**



PI Exporters 56  
 PI Non-exporters 43  
 Source: BIE Survey

The relatively high ranking by exporters of administration as a problem is not really surprising. In general, exporters are used to a fair amount of administration in the course of their business; for example, in the form of contracts, overseas orders, foreign exchange, local and foreign regulations. The high administrative problems may largely reflect the fact that firms with a greater reliance on exports are more likely to be involved in business cooperation (see Chapter 4). In other words, linkages are a regular feature of exporting and the distinction between general exporting problems and business cooperation problems become blurred.

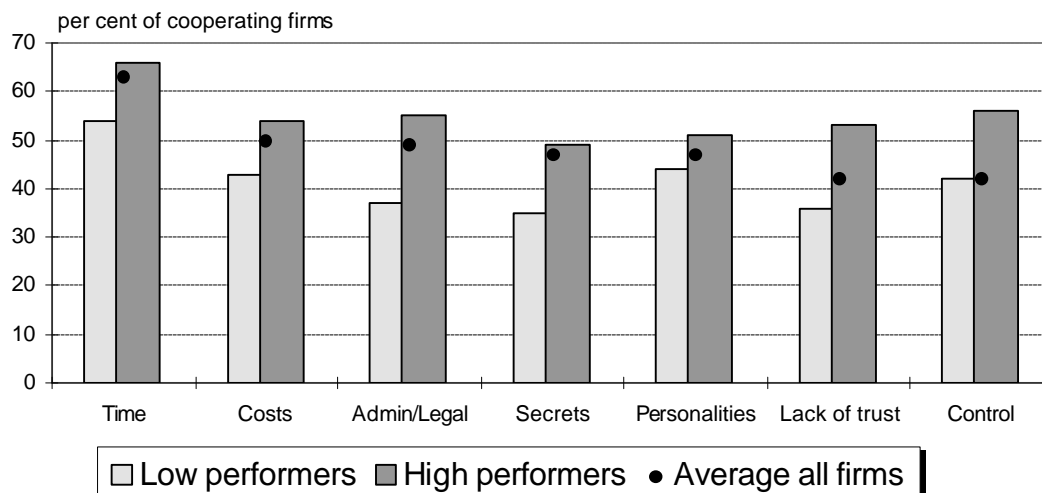
While experiencing significant general problems across the board, exporters are little different from domestic-oriented firms in relation to 'major' problems. Time commitments are above average, as is administration, but everything else seems well under control.

### 10.2.5 High and low performing firms

High performing firms are considerably more likely to have problems within their cooperative arrangements – a Problem Index of 55 compared with 42 for the low performers and 49 for the average firm (Figure 10.8).

The differences between the two firm types are substantial across all the negative factors, but with the most significant being administration and lack of trust. Only in the area of personality difficulties do the two firm types come relatively close to each other.

**Figure 10.8 Problems encountered in arrangements by high and low performers**



PI High performers 55  
 PI Low performers 42  
 Source: BIE Survey

The relative importance of problems encountered by high performers are quite unusual compared to other firm types. Additional time commitments (66 per cent) is first, as is usual, but the second most important problem, loss of control (56 per cent), is generally one of the least problems for other firms. Similarly, trust is a considerable problem for high performers but a minor problem for the average cooperating firm.

The ‘major’ problems of the high and low performers are much more closely aligned. Administration and time commitments stand out as the two main differences between the firms. The latter is particularly notable as a ‘major’ problem for high performing firms with over 20 per cent experiencing serious difficulties in managing the time taken up by business cooperation.

The low performing firms are in fact more likely to suffer ‘major’ problems in two areas, financial costs and personality difficulties. Firms caught in a period of declining sales and reduced cash flow are understandably more likely to be concerned about the financial expense involved in maintaining their cooperative arrangements<sup>8</sup>.

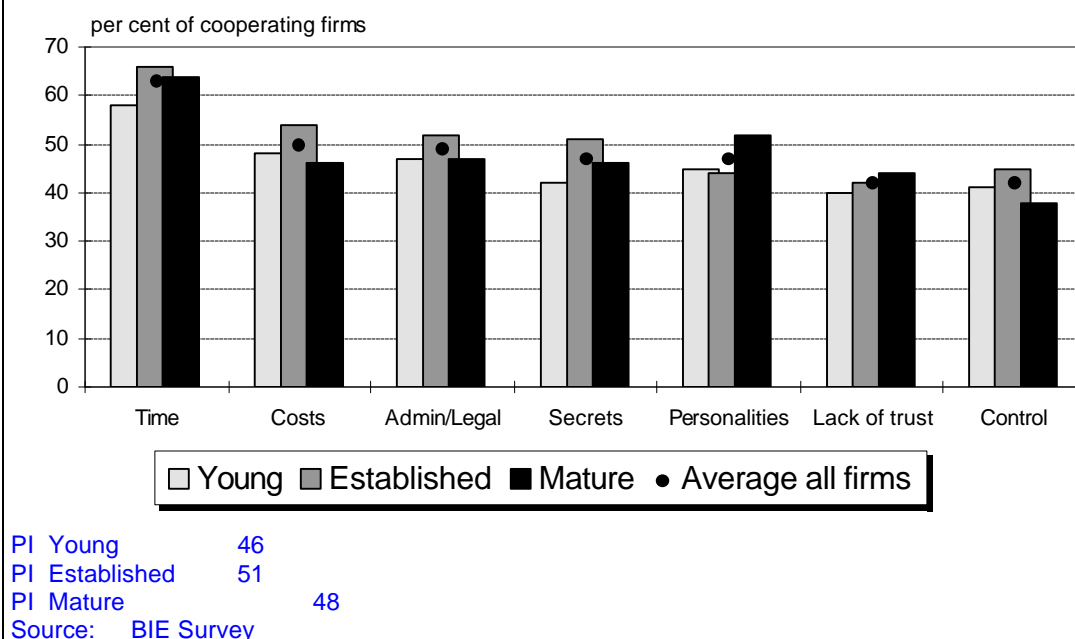
<sup>8</sup> It is somewhat mysterious that it does not feature more highly as a general problem (only 43 per cent compared with 50 per cent for the average firm).

### 10.2.6 Age of firm

Do inexperienced young firms find the world of cooperative business arrangements hard going and full of problems? Do mature firms know their way around sufficiently well to be able to nip in the bud any minor irritations before they become full scale problems?

Figure 10.9 demonstrates that established firms (6-24 age group) are a little more likely to face cooperation problems than the youngest and oldest firms. Interestingly, dealing with loss of control stands out as the most significant major problem after additional time commitments. Perhaps many firms in this group believe they have to cooperate to grow but are reluctant to give up the degree of control they have enjoyed in their formative years.

**Figure 10.9 Problems encountered in arrangements, by age of firm**



Young firms (5 years or less) do not have the same intensity of problems as older firms, with the percentage of firms experiencing problems generally in the early to mid forties. That young firms only face 'average' problems may be partially explained by the fact that these firms are often owned and managed by highly experienced personnel. This can make the link between the age of the firm and the outcomes of its arrangements somewhat tenuous.

However, the youngest firms are more likely to have 'major' problems with their cooperative arrangements and have relatively strong concerns about disclosing commercial secrets and lack of trust (12 per cent of firms in each case).

Mature firms (25 years or older) tend to have more difficulties with the personalities in cooperating firms. At the opposite end of the spectrum, loss of control is the least concern for most firms. This may reflect their security from being in existence for a relatively long time. This feeling of security and control may also explain the lower proportion of mature firms facing 'major' cooperation problems.

### 10.2.7 Other characteristics

Both the *product type* and the degree of *competition* in a firm's markets appear to have little impact on the negative aspects it experiences with its involvement in inter-firm cooperation.

## 10.3 Problems and different forms of cooperation

This section follows the pattern of previous chapters and discusses the differences in problems faced by cooperating firms in various types of arrangements – namely, according to the *intensity* of the cooperative arrangement (number of arrangements, number of firms in the arrangement, formal/informal) and the *nature* of the firms with whom they are cooperating (customers/suppliers/others or domestic/overseas firms).

### 10.3.1 Problems and the intensity of the arrangements

#### Number of arrangements

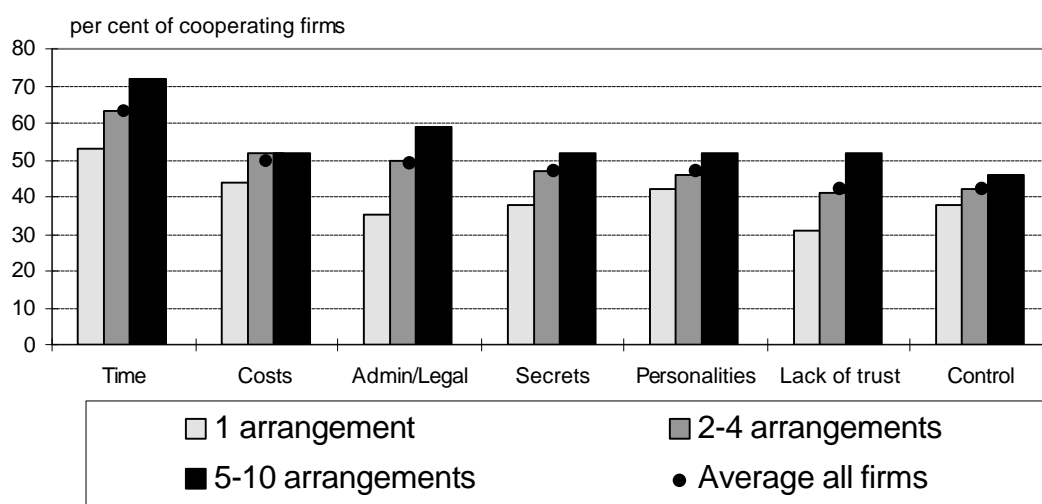
Over 70 per cent of cooperating firms have at least two cooperative business arrangements and 30 per cent have at least five. The negative aspects associated with single and multiple arrangements are shown in Figure 10.10.

The data confirm the hypothesis developed in explaining the degree of problems in other arrangements – the greater the number of linkages a firm has, the more likely it is to experience problems with its cooperative dealings. In other words, with so many linkages to choose from, a firm is more likely to find some problems amongst them all.

The differences between the three groups shown in Figure 10.10 are quite striking. While firms with a single cooperative arrangement score only 40 on the Problem Index, this jumps to 49 for firms with two to four arrangements and 55 for firms with five to ten.

The two categories where problems for single arrangement firms get closest to multiple arrangement firms are personality difficulties and loss of control. The latter again provides interesting food for thought; even for firms with five to ten arrangements, loss of control affects only 46 per cent and is their smallest concern overall.

The additional time and extra administration associated with inter-firm cooperation both follow the expected patterns. However, disclosing commercial secrets and lack of trust also appear to be more likely concerns as a firm develops more linkages.

**Figure 10.10 Problems encountered in arrangements, by number of arrangements**

PI 1 link 40

PI 2-4 links 49

PI 5 to 10 links 55

Source: BIE Survey

In terms of ‘major’ problems, the variation between the three groups is not nearly so marked. There is still a tendency for firms with multiple arrangements to be more likely to experience difficulties, but the distinction is now only clear between two groups – firms with a single arrangement and other firms. Firms with two to four linkages and firms with five to ten have apparently very similar attitudes with regards to the ‘major’ problems associated with inter-firm cooperation. Only in the area of disclosing commercial secrets is there any difference between the two groups (7 per cent for 2-4 linkage firms and 11 per cent for 5-10 linkage firms).

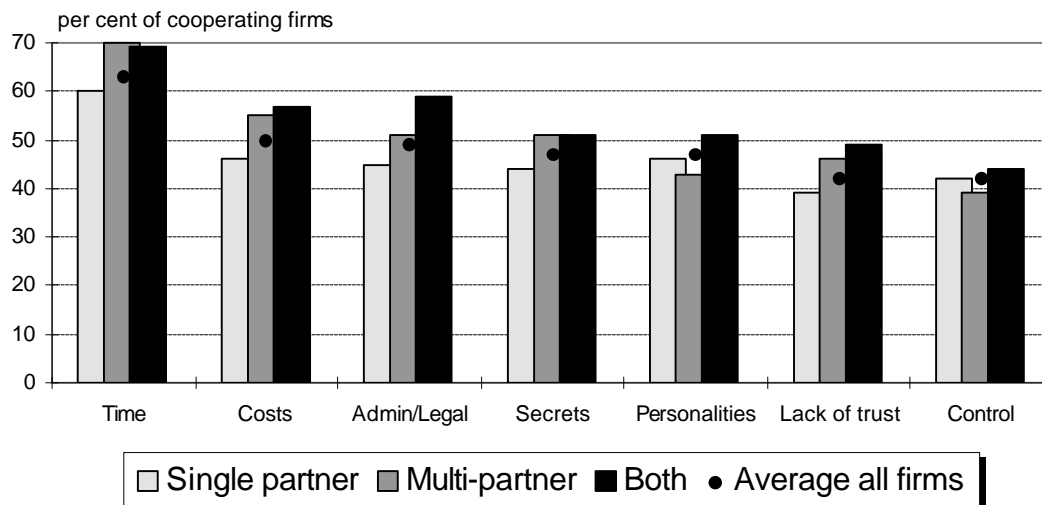
### *Number of partners in the arrangement*

Two-thirds of cooperating firms use only linkages involving one partner – they work together on a one-to-one basis. The other third is split between firms with only network arrangements and firms with a combination of single partner and network arrangements.

Firms which confine their linkages to one partner are a little more likely to have the least problems overall with inter-firm cooperation (Figure 10.11). Outside additional time commitments at the high extreme, and lack of trust at the other, the proportion of firms with general problems is very bunched.

Cooperating firms involved exclusively in network arrangements are apparently experiencing difficulties in coping with the amount of time required to manage their arrangements. They are also much more likely to be concerned with the financial costs of their cooperation than firms in one-to-one linkages. Box 10.3 outlines some of the problems faced by a firm in a network arrangement.

**Figure 10.11 Problems encountered in single partner and multi-partner arrangements**



PI Single partner 46  
 PI Two or more 51  
 PI Combination 54  
 Source: BIE Survey

Lack of trust is more likely to be a general problem for networks than one-to-one linkages, but is totally insignificant as a major problem. The only 'major' problems for firms in networks are time commitments and loss of control. The latter is high compared to single partner and combination linkages (12 per cent, 7 per cent and 6 per cent respectively)<sup>9</sup>.

### Box 10.3 Competition and cooperation – Robins Bush Food

*This innovative company has only been operating since 1993 but already has an annual turnover of over \$1/2 million. There are two arms of operation (a) bush food, including preserves, chutneys, sauces, dressings and flavourings (b) both traditional and bush cakes for Qantas Catering.*

*Robins Bush Food is a member of the Victorian Food Network, a National Industry Extension Scheme initiative directed towards exporting. As yet, Robins Bush Food is not exporting. In 1994 it had six members, of which only two are founding members. Those remaining members recognise that gains resulting from promotional economies, the setting of standards and the development of a viable supply base, will be accrued to their companies in the long term. This lack of quick gains was a problem for some of the original members.*

*The informality of the network has also raised some problems. There are no rules on market behaviour and this is a major issue of concern to members which are all small, relatively young firms.*

Source: BIE interview

The problems within cooperative arrangements tend to be the highest for firms with a combination of arrangements (PI of 54). The greater administrative and legal burden involved stands out as the most significant difference between these and the firms in only one-to-one arrangements.

<sup>9</sup> However the figure for networks only represents about 9 firms.

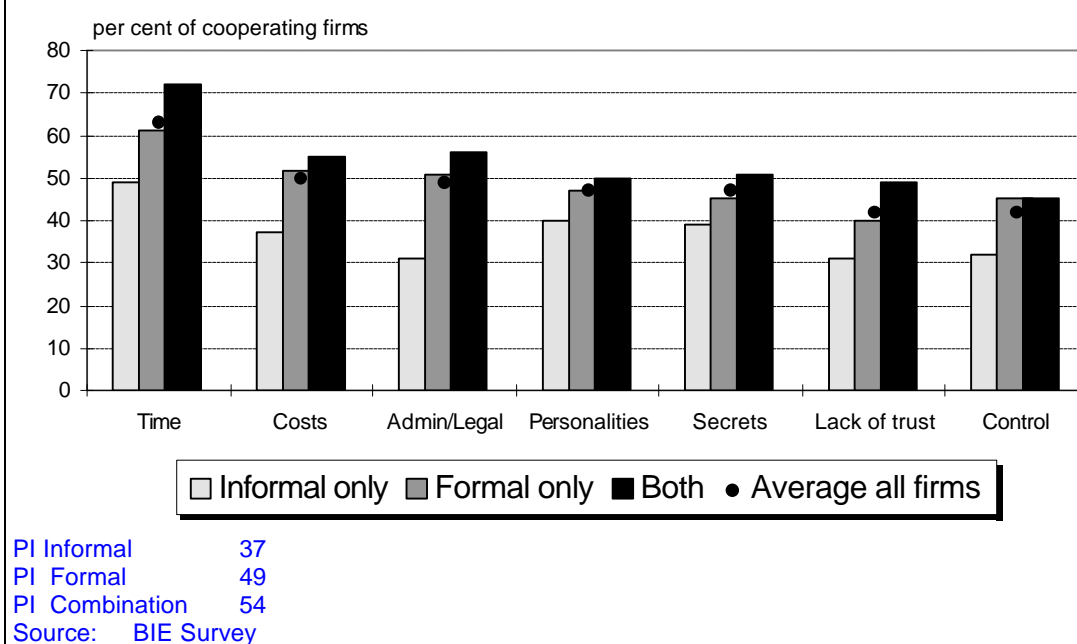


### Formality of the arrangement

A formal cooperative business arrangement may, on the one hand, be expected to cause more headaches than looser, informal linkages because of the probable higher stakes involved and the complications of contracts. On the other hand, the presumed greater certainty associated with formal linkages could reasonably be expected to cause fewer problems with such things as trust and personality difficulties.

Cooperating firms around Australia leave no doubt, in fact, that the less formal an arrangement the less the chance of problems arising (Figure 10.12).

**Figure 10.12 Problems encountered in formal and informal arrangements**



Across the board, a greater proportion of firms with formal-only arrangements experience cooperation problems than those firms with informal-only arrangements. Most of these differences are significant.

The biggest gaps between formal and informal arrangements are predictable, namely the administrative/legal burden and the financial costs. In essence, these two aspects are usually the key distinguishing factors between formal and informal arrangements and this fact is not lost on the firms involved. The relative complexity of formal linkages and the fact that firms cannot easily walk away from them comes at a price.

The other major story from Figure 10.12 is the comparison of problems between firms with exclusive formal arrangements and those with some form of formal/informal combination. Firms with a combination of arrangements are more likely to have significant business cooperation difficulties than firms with only formal linkages in two areas: additional time commitments and lack of trust.

The additional time commitments involved with a combination of linkages provides the most significant difference with formal arrangements. This again suggests that problems are correlated with the number of arrangements. As a combination must have at least two arrangements, the greater difficulties experienced is probably largely reflecting the additive nature of cooperation problems.

Ten per cent of firms with exclusive formal arrangements have ‘major’ difficulties with administration and legal aspects. This compares with 8 per cent for combined arrangements and 6 per cent for informal arrangements. While the differences are not significant, there is a suggestion that firms which make a point of dealing exclusively on a formal basis may pay for this by having to devote more resources to ‘managing’ the arrangements.

### 10.3.2 Problems encountered with different arrangement partners

#### Customers, suppliers and other firms

Linkages with customers, suppliers and other firms are the core of current interest in inter-firm cooperation. The negative aspects associated with these linkages by cooperating firms will provide further clues as to how the arrangements can work better and have more effective outcomes.

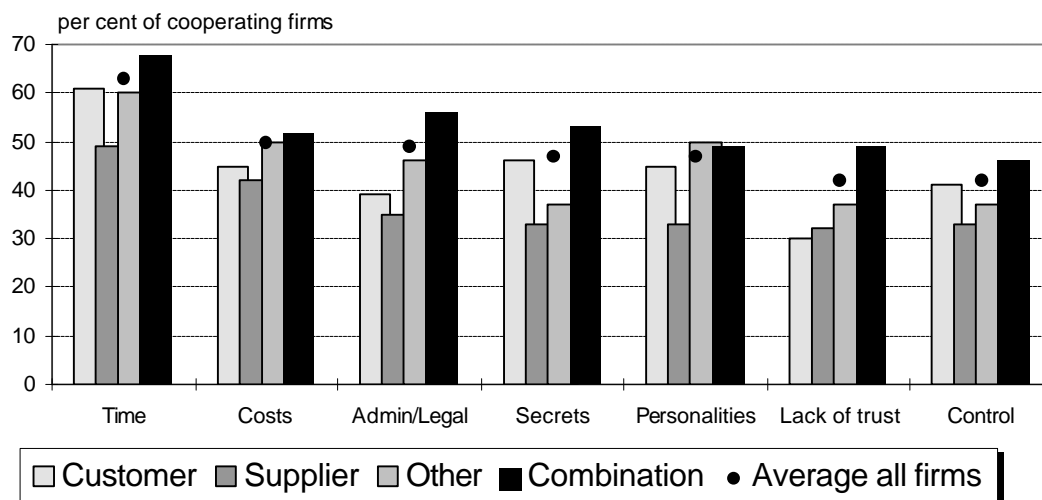
Figure 10.13 suggests that firms dealing exclusively in supplier arrangements have the least problems overall with business cooperation. The Problem Index (PI) for suppliers, at 37, is significantly lower than the PI for customers and other firms (44 and 45 respectively).

To a large extent, these results reflect the balance of power in inter-firm relationships. A firm dealing with its supplier is usually in the dominant position – if the supplier does not perform to the standards required by the firm then it will look around for an alternative source of supply. The onus is on the supplier to meet the demands of the firm in question.

A large number of firms interviewed as part of the study noted how they liked to maintain some flexibility with their supplier arrangements. They let their suppliers know they had to perform well or they would look elsewhere.

The mirror image of this, of course, is that firms dealing with their customers are generally in the weaker bargaining position and have more to lose if cooperative arrangements do not work out. Firms dealing with customers will find more problems with their linkages.

**Figure 10.13 Problems encountered in arrangements with customers, suppliers and other firms**



PI Suppliers 37

PI Customers	44
PI Other firms	45
PI Combination	53
Source:	BIE Survey

The largest differences in problems between customer only and supplier only arrangements occur in additional time commitments, disclosure of commercial secrets and personality difficulties. Interestingly though, it is not a case of customer problems being particularly high, relative to the average for all arrangements. Rather, these sort of problems are just not very common in supplier linkages.

Firms with a combination of arrangements between customers, suppliers and others are by far the most likely to suffer negative aspects through their involvement with inter-firm cooperation (PI of 53). Again, this probably largely reflects the fact that these firms generally have a larger number of cooperative arrangements and therefore more headaches in tow. Interestingly, even with a combination of different linkage types, loss of control is a relatively unimportant issue for cooperating firms – it is in fact the ‘least’ of their problems.

The ‘major’ problems confirm the difficulties with running combined arrangements. Additional time commitments and administration clearly go hand in hand in this case and provide the most significant differences with other arrangements. However, it is worth remembering that firms with a combination of arrangements also tend to benefit the most (see Chapter 8).

For the remaining categories, supplier linkages present more ‘major’ problems overall than links with customers and other firms – reversing the pattern we observed above. More than anything this seems to be due to the additional time firms have to spend with their suppliers (15 per cent of firms have ‘major’ problems with suppliers compared with 9 per cent for customers). This means that while a larger proportion of firms believe there are generally more problems involved in dealing with their customers, supplier linkages present the more severe difficulties to a small number of firms.

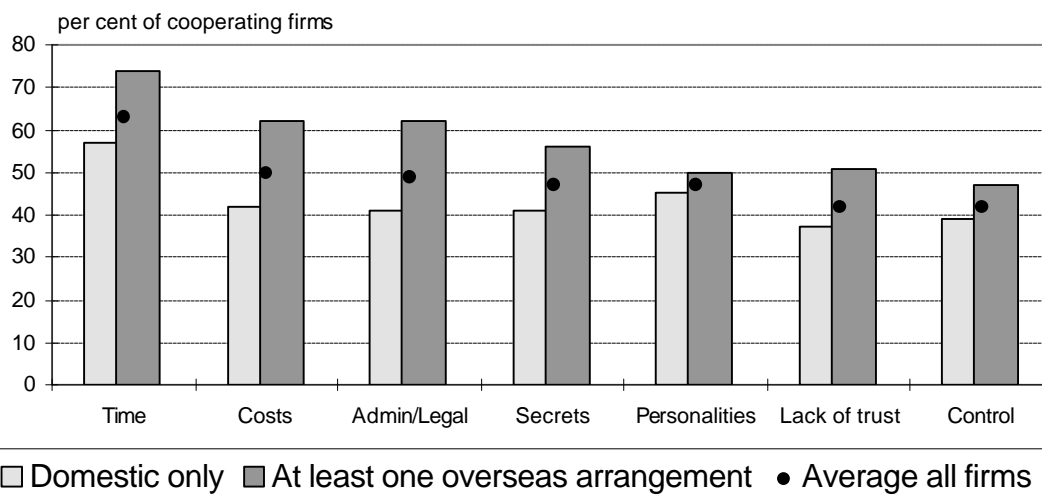
### *Overseas and domestic partners*

As previously noted, the BIE study was unable to consider the relative benefits and costs of exclusive overseas linkages.

What we are able to compare is the problems encountered by those cooperating firms with *some* overseas linkages (that is, at least one) and those cooperating firms with *only* domestic linkages (that is, no overseas linkages at all).

The results obtained from this study demonstrate that firms currently involved in arrangements with firms overseas are finding a lot of negatives in these relationships – they record a very high 57 on the Problem Index (Figure 10.14).

**Figure 10.14 Problems encountered in arrangements with overseas and domestic firms**



PI Domestic 43  
 PI Overseas 57  
 Source: BIE Survey

Almost 75 per cent of firms with some overseas links have difficulties with the additional time involved in managing these arrangements. Even more significant perhaps is the 60 per cent of firms that are unhappy with the financial expense – this compares with 40 per cent of firms which have only domestic linkages. Other significant concerns for overseas-linked firms are the administrative and legal burden, disclosure of commercial secrets and lack of trust. The only two factors apparently not particularly worrisome for firms with overseas arrangements are loss of control and personality difficulties.

However, despite the high proportion of firms facing general problems with their overseas linkages, the proportion with ‘major’ problems is not particularly unusual in any category.

Domestic-oriented firms (64 per cent of cooperating firms) are less likely to encounter problems within their cooperative arrangements – their PI of 43 compares with 57 for overseas-linked firms (and 49 for the average firm).

There is nothing unusual in the relativities between the domestic firms’ problems. Additional time commitments are clearly of greatest concern, but all other problems are basically on par with each other. Nothing stands out as a ‘major’ problem.

## 10.4 Summary

We know from earlier chapters that business cooperation brings substantial benefits and has positive effects on performance and competitiveness. It appears to work well for most firms which try it. But cooperation has a ‘downside’ too and one aspect of this has been investigated in this chapter.

Just as virtually all firms benefit in some way from cooperation, the majority of firms (80 per cent) have some ‘negatives’ associated with their cooperative arrangements. This is to be expected and it is in fact

surprising that one-fifth of cooperating firms apparently sail through inter-firm cooperation without problems of any kind.

However, a more telling comparison between problems and benefits is at the major/critical level. A low 30 per cent of firms encounter major/severe problems with their cooperative arrangements and only 15 per cent experience two or more major/severe problems. These figures compare with 75 per cent and 65 per cent respectively for benefits. Thus, on average, the likelihood of a firm obtaining major/critical benefits in its business cooperation dealings is around two and a half times greater than its chances of encountering major/severe problems. Even more significant, the chances of firms obtaining two or more major benefits are four times greater than the chances of experiencing two or more major problems. These are important findings and firmly place the 'costs' of cooperation in context.

On a related topic, firms encountering the greatest problems with their cooperative arrangements are generally the same ones who extract the greatest benefits. Large firms, exporters, firms with overseas linkages and firms with multiple arrangements fall into this category.

These all represent firms who tend to regard cooperation as a natural way of doing business and tend to have larger numbers of linkages than average. They have a greater commitment to cooperation as a business strategy. They expect and receive significant benefits from cooperation and in return have to wear some considerable problems along the way. In a sense, they 'get out what they put in' to their cooperative activities.

Additional time commitments stand out as the major problem encountered by cooperating firms. Almost two-thirds of firms report some difficulties in finding the extra time to manage their cooperative arrangements. A second group of problems affect around one-half of cooperating firms. These are concerns about the financial costs and disclosure of commercial secrets, administrative and/or legal matters and personality difficulties. At a lower level, around 40 per cent of firms have some cooperation problems relating to loss of control and lack of trust.

The scarcity of the time factor cuts across all types of firms and all types of arrangements. Cooperative arrangements have to be investigated, set up and then managed on a continuing basis. This contrasts with arm's length market transactions which can usually be dealt with fairly promptly.

In some respects, time requirements might be seen as a consequence of other aspects of cooperative arrangements. Thus, the relatively high proportion of firms specifying time as a problem may reflect the fact that they need to devote time to dealing with administrative and legal aspects, safeguarding secrets, trust issues or maintaining appropriate control over partner firms. While these other factors do not appear so prominently as 'problems', it is only because managers are keeping the lid on them by devoting a lot of time to managing the arrangements.

This hypothesis can be tested to some extent by comparing problems encountered within cooperative arrangements with the reasons for cooperation failure. Does the time factor become all too much for some cooperating firms so that they are forced to abandon some linkages? Or do other factors come to the fore in explaining why firms pull out of cooperative arrangements. These issues are the subject of the next chapter.

